

UNION ELECTRIC COMPANY

DOING BUSINESS AS AMEREN-UE

ILLINOIS COMMERCE COMMISSION DOCKET NO. _____

DIRECT TESTIMONY

OF

K. L. REDHAGE

ST. LOUIS, MISSOURI
AUGUST 30, 2002

**UNION ELECTRIC COMPANY
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ILLINOIS COMMERCE COMMISSION
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DIRECT TESTIMONY OF KEVIN L. REDHAGE**

1 **Q. Please state your name, address, and occupation.**

2 A. My name is Kevin L. Redhage, and I reside in Chesterfield, Missouri. I am a Financial
3 Specialist in the Financial Planning and Investments Department at Ameren Services.

4 **Q. How long have you held this position?**

5 A. I have held this position since February 1992.

6 **Q. What are your principal duties?**

7 A. My principal duties include the following: monitoring investment activity and coordination of
8 trust and regulatory issues concerning the Company's Nuclear Decommissioning Trust Fund;
9 reviewing capital expenditure justifications to assure that they are conducted in accordance with
10 Company policies; and developing economic models for the performance of financial analyses.
11 I also perform other projects as assigned, relative to the area of financial planning, on a case-
12 by-case basis.

13 **Q. Please describe your educational background.**

14 A. I graduated with a Bachelor of Science degree in Civil Engineering from the University of
15 Missouri - Rolla in 1979. In 1991, I received a Masters degree in Business Administration
16 (MBA) from Webster University in St. Louis, Missouri, with an emphasis in Finance.

17 **Q. What is your work experience at Union Electric Company and Ameren Services?**

18 A. I was employed by Union Electric Company in May 1981 as an Assistant Engineer in the
19 Nuclear Construction Department at the Company's Callaway Plant. While serving in this
20 department, I was promoted from Assistant Engineer to Engineer. In these positions, I
21 performed various construction management activities, both technical and administrative in
22 nature.

23 In April 1986, following the completion of Callaway construction, I transferred to the
24 newly formed Quality Services Department, located in the Company's St. Louis headquarters.
25 My principal responsibility in this position was the review of Company suppliers' quality
26 assurance (QA) programs, and the on-site verification of the implementation of the QA
27 programs at the suppliers' facilities. In this position, I also was involved in the development of
28 internal Company QA programs.

29 After I attained my MBA in Finance, I was assigned to Union Electric's Financial
30 Planning and Investments Department as a Financial Specialist. This is the position I currently
31 hold at Ameren Services, with the principal duties as described earlier.

32 **Q. Have you previously testified before this Commission?**

33 A. Yes, I have. I have provided testimony in ICC Docket Nos. 93-0194, 93-0300, 95-0091,
34 97-0509 and 99-0186.

35 **Q. What is the scope of your testimony?**

36 A. The Commission's "Order" in Docket No. 99-0186 approved the Company's "Rider DEF –
37 Decommissioning Rider Expense Factor" tariff. This tariff states:

38 "The DE [Decommissioning Expense Factor per kwh] shall be updated every 3
39 years with a September 1 filing to be effective January 1 to reflect changing

decommissioning expense, jurisdictional allocations, kWh estimates, and the prior period's decommissioning over/under recoveries."

In accordance with the foregoing requirement, my testimony will address the following:

- 1) Request for approval of an increase in the quarterly amounts to be expensed and contributed to the Callaway Plant Tax Qualified Nuclear Decommissioning Trust Fund relative to the updated decommissioning cost estimate;
- 2) Request for confirmation by the Commission that the decommissioning expenses associated with the quarterly contributions are included in the Company's cost of service and are reflected in its rates for ratemaking purposes.

Testimony regarding the updated decommissioning cost study and estimate will be provided by other Company witnesses. Likewise, testimony regarding the increased tariff associated with the increase in decommissioning expense and the reconciliation of the prior period's over / under collection amount will be provided by other Company witnesses.

Q. Are you sponsoring any schedules?

A. Yes. I am sponsoring Schedules 1 through 3.

Q. How is the Company currently funding nuclear decommissioning in its Illinois electric jurisdiction?

A. In it's "Order" in Docket No. 99-0186, the Commission approved an annual decommissioning expense of \$296,576 as being included in the Company's cost of service for ratemaking purposes. This annual expense included in the cost of service was determined by levelizing the contribution which must be placed annually in the external qualified trust through the end of the

operating license of the Callaway plant (2024) in order to provide fully for the total expenditures which are estimated to be needed for decommissioning the plant at that time.

The Company's Illinois tariffs currently allow this nuclear decommissioning expense to be collected via "Rider DEF – Decommissioning Expense Factor", which establishes a 0.008¢ per kilowatthour (kWh) charge applicable to electricity delivered or sold at retail in the Company's Illinois electric jurisdiction. Contributions of \$74,144 (¼ of the \$296,576 annual decommissioning expense acknowledged by the Commission as being in the Company's cost of service for ratemaking purposes) are then placed quarterly in an external tax-qualified trust. Rider DEF requires that any over or under recoveries of decommissioning expense via the rider for each 3-year period be reconciled by adjusting the succeeding period's decommissioning expense by a reconciliation balance.

Q. Please describe the external tax-qualified trust into which nuclear decommissioning funds are placed.

A. The Company maintains a single, tax-qualified nuclear decommissioning trust with three jurisdictional sub-accounts (Missouri, Illinois and FERC). In the three sub-accounts all balances, contributions, earnings and other activities are accounted for separately by jurisdiction. The Bank of New York (BNY) serves as trustee for the external tax-qualified trust. The Bank of New York and U. S. Bancorp Asset Management, Inc. serve as investment managers. The Company receives a deduction for the amount contributed to the trust for state and federal income tax purposes. Income earned and realized capital gains on investments in the trust are currently taxable at a rate of 20% for federal income tax purposes. A Missouri

state income tax rate of 6.25% also applies to trust income and realized capital gains. The combined federal and state composite income tax rate is 24.5283%.

Q. What was the balance of the Illinois jurisdictional sub-account of the decommissioning trust fund as of June 30, 2002?

A. The Illinois jurisdictional sub-account of the decommissioning trust fund had a total market value of \$12,868,067.09 and a book value of \$10,975,576.09 as of June 30, 2002. These values are illustrated on the trustee's "Summary by Manager" statement, presented as Page 1 of Schedule 1.

Applying the 24.5283% federal and state composite income tax rate to the unrealized capital gains embedded in the foregoing balances results in an "After-tax Liquidation Value" of \$12,403,871.18. This calculation is shown on the "Callaway Plant Tax-Qualified Nuclear Decommissioning Trust Fund Account Valuation" spreadsheet, presented as Page 2 of Schedule 1.

Q. When did the Company last file an updated decommissioning cost estimate and funding level analysis with the Commission?

A. The Company filed its latest decommissioning cost estimate and funding level analysis with the Commission on April 1, 1999. The Commission responded to this filing in its "Order" relative to Docket No. 99-0186, dated September 28, 1999.

Q. What is the current annual expense and contribution amount for the Illinois jurisdiction for nuclear decommissioning?